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HOW TO SAVE THE INTERNATIONAL TRADING SYSTEM

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HOW TO SAVE THE INTERNATIONAL TRADING SYSTEM

THURSDAY, SEPTEMBER 20, 1984

CONGRESS OF THE UNITED STATES,
SUBCOMMITTEE ON TRADE, PRODUCTIVITY, AND ECONOMIC GROWTH OF THE JOINT ECONOMIC COMMITTEE,
Washington, DC.

The subcommittee met, pursuant to notice, at 10 a.m., in room SD-342, Dirksen Senate Office Building, Hon. William V. Roth, Jr. (chairman of the subcommittee), presiding.

Present: Senator Roth and Representative Scheuer.

Also present: Ruth Kurtz, professional staff member.

OPENING STATEMENT OF SENATOR ROTH, CHAIRMAN

Senator ROTH. The subcommittee will please be in order.

First, I want to welcome each of you distinguished members of the panel. As you can tell, we are using a little different approach in these hearings than normal. We think rather than be involved in a question-and-answer period, what we want is more of a dialog.

As some of you may know, this is the third hearing that the Joint Economic Committee has had on "How To Save the International Trading System."

At both of the first two hearings, which covered the full spectrum of problems, it was interesting that time and again the witnesses thought agriculture should be brought more fully into GATT; that that was essential if we really were going to save the trading system itself.

So that is the purpose of the hearing today—to take a closer look at ideas for improving the international framework for agriculture trade.

Very frankly, the purpose of these hearings—this series of hearings—has been to highlight the need for the Congress to redirect its efforts in the trade area away from protectionism and unilateral proposals and hopefully toward the development of new kinds of trade initiatives.

We want proposals that promise both equitable and expanding trade.

In no area is the need to focus our attention on proposals that support both fairness in our trade relations and growth in trade more readily apparent than in the agricultural sector. Our farmers know well that the simple responses for achieving a fair shake in trade, like protectionism, would jeopardize their financial future.

I don't have to tell you gentlemen that something like $1 out of every $3.50 our farmers earn results from export trade. We ship 53 percent of our soybeans, 51 percent of our wheat, 40 percent of our rice, 31 percent of our tobacco, and 25 percent of our corn abroad.

So with this export performance American farmers want trade policies that promote fair play in trade without jeopardizing their access or position in international markets.

I might say, gentlemen, that the question of agriculture is of more than academic interest to me. A lot of people think Delaware is an industrial State only involved in chemicals, when in fact two-thirds of our State depends very strongly on agriculture—poultry, truck farming, and we raise a lot of corn, wheat, and soybeans. I just want that to be clearly understood because it bothers me sometimes that people don't understand that agriculture is the largest employer and second most important money raiser for my State.

In any event, there are those who think there needs to be a multilateral approach to agriculture trade problems. But that is the dilemma.

I am sure everyone in this room knows international consensus on agriculture trade policy does not exist and multilateral institutional mechanisms that could promote such a consensus are very limited.

GATT, which ostensibly provides rules of fair play for trade among its 90 members, for all intents and purposes does not govern agricultural trade.

I was interested in the fact that at our first two hearings many of our witnesses thought the time was propitious for changing this situation. Both Ambassador Brock and Clayton Yeutter of the Chicago Mercantile Exchange indicated that it may now be possible to enter into new trade negotiations to create effective trade rules for agriculture within the GATT.

So it is with this encouragement I called this hearing. While our trade problems in agriculture are often the topic of extensive discussion on the Hill, I think this informal hearing provides—hopefully provides—a special opportunity to concentrate the bulk of our discussion on solutions and perhaps come up with a few novel ideas.

I think that it is self-evident we are indeed fortunate to have this distinguished group of participants, both eminent practitioners and scholars of agricultural trade. I will start with Dale Hathaway. I am not going to go through all of your backgrounds because it will take the rest of the morning to do so.

Dale, of course, has been Under Secretary of Agriculture and is now with the Consulting International Group.

Gale Johnson, of course, is the noted agricultural economist at the University of Chicago.

Bill Pearce has served with great distinction as the former Deputy USTR, and is now a vice president of a small company known as Cargill.

James Starkey—Jim was the chief negotiator during the multilateral trade negotiations and is now a vice president of Universal Leaf Tobacco Co.

Glenn Tussey is assistant director for national affairs of the American Farm Bureau Federation.

It is a pleasure to have each and every one of you here. We thought what we might do is give each of you a few minutes to make whatever comments you care to and keep those within 5 minutes. That would be helpful.

What we are looking for is your views on how the international trading system can be reformed to bring equity in our agriculture trade relations and at the same time support trade expansion for agricultural trade.

Mr. Hathaway, would you like to start off?

STATEMENT OF DALE HATHAWAY, FORMER UNDER SECRETARY OF AGRICULTURE

Mr. HATHAWAY. Thank you, Senator.

As you have stated, many individuals, especially in the United States, have stated that GATT rules relating to agriculture ought to be clarified and brought into conformity with those for other products. I am not certain which other products. Sometimes I am not sure whether they are talking about textiles, and similar arrangements or which GATT rules are meant.

But be that as it may, the present exemptions for agriculture were largely written in because of U.S. pressures. I would hope that the very excellent paper that Professor Johnson gave at the recent American Agricultural Economic Association meeting might be in some way made available because it outlines to some extent the history of the GATT exceptions for agriculture.

These exemptions exist because various countries, including the United States, for domestic political pressures are unwilling to expose their ag industries to market forces. Ag trade actions are basically outgrowths of these domestic programs.

Suggesting the GATT rules can be changed markedly in ways of value to the United States implies three things: First, that the domestic political pressures have diminished or disappeared. That I think is a reasonably doubtful proposition. But it seems to me that particularly democratic societies can't trade away what they can't afford to trade away politically.

Second, it implies to me that the United States is willing to put its section 22 exemptions on the line and would be willing to negotiate other major aspects of its domestic farm programs. That is also, in my view, a somewhat dubious proposition. Even if it were true, I am not certain what it would buy from certain other countries.

And the third thing that I would assume is that the United States would have other trade leverage vis-a-vis other countries that it is willing and able to use for the benefit of agriculture. It may not be entirely an agricultural tradeoff, that other parts of the economy would be willing to be in part traded for agriculture.

I think it is important to understand that most of our discussions center on export subsidies. They, however, seem to me to be only a part of the problem. If they are going to be serious and meaningful discussions about rules in agriculture they have to really cover three subjects.

First, production incentives. Domestic production incentives which apply in almost all countries.

Second, domestic market protection for agricultural industries.

And then, third, the export marketing measures.

I do not believe that you can meaningfully deal with GATT issues in agriculture without dealing with all three of these in that negotiation, and as I said in my earlier comments, it is not clear to me that U.S. agriculture would universally support dealing with all of these measures in a meaningful negotiation. But that, in my view, is the sort of general approach that has to be included in order to deal with these issues in a way that will make the trading system more open and meaningful. I will stop at that point.

Senator ROTH. Thank you.

I would like to welcome Congressman Scheuer.

Why don't we just go up the aisle, so to speak? Mr. Johnson.

STATEMENT OF D. GALE JOHNSON, AGRICULTURAL ECONOMIST, UNIVERSITY OF CHICAGO

Mr. JOHNSON. Thank you. I am in almost complete agreement with what Dale Hathaway had to say, but since I have been given the opportunity to say it myself I won't throw the opportunity away.

Two or three points will be emphasized. One includes the measures the United States can take unilaterally to make the system work better, and they are quite consistent with what Dale had to say. The first thing the United States could do would be to repeal section 22 of the Agricultural Adjustment Act of 1933 and the 1964 act permitting controls over the importation of meat.

I really don't see how we can expect people representing the United States to go into GATT negotiations carrying this luggage on their backs because we can so easily, I suspect, be laughed out of court with our requests of other people to reduce their barriers to agricultural products when we have the section 22 which requires the use of quantitative restrictions whenever the imports would interfere with any domestic farm program.

Likewise, though we have never used it directly, the 1964 act limiting meat imports—primarily beef imports—however which we have used to bludgeon other countries into so-called voluntary export restraints.

The second thing I think we should do unilaterally if we are really interested in saving the international trading system for agriculture is to repeal the export subsidy provision of section 32.

Now, the amount of money that is involved is a pittance. So this change would, in effect, be symbolic. But as I listen to discussions around the world—and I have just returned from meetings in Western Europe—symbolism is not unimportant in this area, and again how can we object to the EC export subsidies, though they are on an altogether different scale, while we at the same time retain the right and to keep a little money in the back pocket of the Secretary of Agriculture to use for export subsidies.

And, third, we should request GATT to end the GATT waiver that we obtained in 1955 from the provisions of article XI on the use of quantitative restrictions on agricultural trade.

An interim alternative, shocking as it may be, might be we might not ask for the end of the waiver but we might abide by the provision of article XI, provisions which we in fact wrote and which, if my

memory serves me correctly, were written over in the old State Department Building, now the Executive Office Building, in the mid-1940's, and we have never abided by them but yet these were provisions which were written by the U.S. Government and included in a so-called Havana Charter and then later in the GATT. We have always had a program that violated them. That is why we went to GATT and got a waiver.

So as I say, I think we should stand ready to request, or to withdraw our request for the waiver and, as an interim solution at least, to live up to what is required by article XI.

We also should do unilaterally—and this is very much in the spirit of what Dale was saying—is to make adjustments in the U.S. farm programs that would permit us to support liberal trade for all farm products.

Right now we are the world's greatest supporters of liberal trade for grain, soybeans, and a few products like that where we have a distinct comparative advantage. But I do not hear us speaking up very often on dairy, on peanuts, on sugar, and so at the present time we follow a two-faced policy.

We are for liberal trade for farm products for which we have a competitive advantage, and we use quantitative restrictions when needed to minimize governmental expenditures or reduce imports.

Senator ROTH. That is not too different from the industrial sector, is it?

Mr. JOHNSON. No. We operate that way there, too, but that doesn't help our farmers much. In fact, it hurts our farmers to do that.

We have started to make a small step to get at some of the policies in the dairy sector, though I have a suspicion that our enthusiasm for doing anything will stop once we achieve self-sufficiency in dairy products and CCC expenditures fall to a reasonable level.

Yet we should recognize that right now dairy price supports are higher than that of our supposedly archcompetitor who behaves so badly; namely, the European Community. Price supports on dairy products—this is partly due to the high value of the dollar—are some 10 percent above the European Community's.

In the case of sugar we are clearly violating article XI, which as I said we wrote. We use quantitative restrictions to reduce sugar imports, but we don't restrict domestic production, which is one of the requirements of article XI of GATT for the use of quantitative restrictions—that you restrict imports no more than you restrict domestic production. We don't restrict domestic production one iota, yet we surely restrict imports.

And I noticed the other day that recently we cut sugar import quotas some more, but not domestic production at all.

Peanuts and wool are relatively minor commodities from this standpoint, but nonetheless an area where we can make an adjustment in our farm program and one that I think has received all too little attention is that we have components of our programs, particularly the deficiency payments program for wheat, that encourage production.

In recent years we have had price supports at levels that have also encouraged production. So our farm program, supposedly designed within the concept of supply management, has been output increasing as well as output producing.

There are a number of measures the United States could encourage within GATT on a multilateral basis, and I know this suggestion is unlikely to be accepted with great enthusiasm by people in many circles.

But at the present time the structure of European Community protection at the border affecting feeds results in a significant distortion in the way the world agricultural resources are used. This is due to the zero tariff on soybeans and zero or nil tariff on what are called nongrain feeding materials and high variable levies, most of the time, on all grains.

One of the consequences of the zero tariffs combined with the high duties on feed grains—corn, maize, barley—has been the feeding in recent years of 8 million metric tons of manioc or tapioca.

Now, from the standpoint of economic development of Thailand it may be a good thing. From a standpoint of the American farmer it may not have been a good deal to negotiate. While it has expanded the demand for soybeans, since manioc is not of any value without a high protein feed supplement, it clearly cuts into the market for corn.

How much I don't know. I haven't seen any studies to indicate that. The feed grain imports into the Common Market have probably been reduced by 7 or 8 million tons.

So this gives you some kind of a bargaining point to try to get them to reduce their barriers to the importation of the feed grains.

Well, I will stop there.

Senator ROTH. Thank you.

If I may just make an observation, I was interested in your proposal that we ought to unilaterally correct some of our own problems. I would be interested in getting a reaction from some of the rest of you.

One question comes up in my mind. In labor negotiations you always held back what you had to give until the most propitious time in the hope you could get something in return. That would be one question I would have. Not so much what you are suggesting, but the timing.

Please proceed, Mr. Pearce.

STATEMENT OF WILLIAM PEARCE, VICE PRESIDENT, CARGILL, INC., AND FORMER DEPUTY U.S. TRADE REPRESENTATIVE

Mr. PEARCE. Yes, sir.

First, I would like to express appreciation for this exercise, Senator Roth. This is a particularly appropriate place, it seems to me, to begin a discussion of the adequacy of the trading system and the position of the United States within it, especially where it affects agriculture.

I could stop there and say very little more because the issues that I would identify as the key issues have already been pretty well outlined by Dale Hathaway and Gale Johnson.

There might be some value, however, in addressing these remarks to the framework within which a solution is going to be developed, if it is.

I had the opportunity to read the transcripts of the two previous hearings. And it seems to me that people who appeared, people who certainly are in a position to understand what is happening, reflected a strong sense of doubt about the ability of the world trading system under the present circumstances to deal fairly with the issues concerning the United States. Whether that is a correct perception or not, as

long as it exists it feeds protectionism and therefore should be a source of concern.

With respect to agriculture, there are two apparent sources of concern. The first, of course, is the limited scope of the rules, the fact that they exclude agriculture to a very large extent—and services—two areas where the United States has a distinct competitive advantage.

Second is the inability of the GATT system to resolve disputes even where there are rules. The wheat flour and pasta cases under the subsidy code are two examples.

This leads to questions about the relevance of the GATT system, let alone its importance in the kind of trading world that has emerged in the 1980's.

My reactions to these observations are several kinds. On the question of the scope of the GATT rules, the Director General of the GATT made the point very well. Recently, he observed that the GATT can be whatever the contracting parties permit it to be and nothing more. The existing rules have evolved from the interplay of major participants in world trade, the United States of course included. If the rules fail to cover agriculture adequately, it is because the contracting parties were not willing or were unable to come to agreement on what the rules should be. As both Dale Hathaway and Gale Johnson have noted, the United States bears a heavy burden of responsibility for that, beginning with the drafting of article XI and article XVI, which provided special rules for agriculture, and continuing in the negotiation of the GATT waiver in 1955.

There is some irony in this latter point because by the end of the 1950's it had become apparent that agricultural policies that were largely responsible for the United States seeking the waiver were in need of change, and in fact were changed in ways that increased our price competitiveness in the world market and limited the need for the waiver.

On the second point, I find it very hard to fault the GATT for perceived inadequacy of the dispute settlement process. In fact, most of the issues that have been the subject of dispute settlement arise out of ambiguities in the language of the rules. Ambiguity is the ultimate refuge of the negotiator when there is no meeting of the minds. And I think that it is pretty clear that there was not a meeting of the minds on the export subsidy issues. And if the major parties to a dispute were unable to agree on policies that were appropriate, it is not very realistic to expect a panel of experts to decide what they would have been if they had been able to reach agreement. But that doesn't alter the fact that the dispute settlement system really is not going to resolve differences on these issues where agriculture is concerned. It is more appropriately seen, I think, as a continuing part of the negotiating process, and here, I think, it serves a useful purpose.

Well, where does that leave us? The U.S. role in developing GATT rules governing agriculture simply doesn't support demands that others owe us new rules that would favor our present capabilities. We don't hold the high ground on agricultural trade issues.

Instead, it seems to me that we will make progress here only when progress is seen to support broad mutual interests of the key players involved in agricultural trade in the world. Therefore, the relevant question is, What kind of conditions will create a political will to move toward rules which serve our interests in the long run?

The process of developing these conditions, it seems to me, involves two distinct but necessary efforts. We could eliminate section 22, but it is really not the fundamental problem. The fundamental problem in moving the major players has to do with the political realities of agricultural protection, and the need to change the conditions that influence the political realities.

At home that means dealing with an overvalued dollar and with provisions of our domestic agricultural programs which raise prices of U.S. farm commodities and reduce our competitiveness in world trade. I think these two factors, taken together, have had an important effect in encouraging and sustaining agricultural protection systems in other countries.

As to the second point, we will need a negotiation when the conditions exist that support an agreement that moves in the direction we want to go. And for this reason I strongly support the effort that is being made now to mount a new multilateral trade negotiation, even though it is not easy to see the existence of conditions in which negotiation is likely to be successful.

I think there are reasons to hope that a new MTN could succeed. The European Community and Japan are the major players in this game. The European Community is having difficulties sustaining their agricultural programs because of rising costs. There is little evidence that that is going to change. As U.S. farm commodities become more competitive in world markets, that will affect the Community's willingness to look at these issues.

While Europe's problem is economic, Japan's problem is political. Agricultural protectionism is increasingly hard to defend as Japan tries to justify its right to access to foreign markets for the things it produces more efficiently.

So it comes to this, as far as I can see. If we are willing to make the needed changes here to bring consistency and competitiveness to our position on agricultural issues and sales, there is a chance for progress here. And if that produces a needed change in political will I see no reason why the GATT isn't the place to begin to develop agricultural trade rules that serve mutual interests.

Senator ROTH. I would hope your cautious optimism is right. I share that, Bill. Perhaps the cost of our agricultural programs, not only here but elsewhere, is a factor in favor.

I will have to say, on the other side of the coin, I remember when we authorized the so-called Tokyo round. You probably remember it, too. As a member of the Finance Committee, one of our great concerns for the international trading system was that we do something about GATT and we do something about agriculture. It sounded very good in committee, but unfortunately the will was not there in the negotiations.

And I say that not in criticism of those who negotiated it. I am a great admirer of them. But the fact is we didn't have the political will either here or elsewhere, and this is something I would like to go into in a little more detail because I think it is critical to what we are discussing here.

Let me ask Congressman Scheuer, would you like to say something?

Representative SCHEUER. I am here to learn.

Senator ROTH. Mr. Starkey.

STATEMENT OF JAMES STARKEY, VICE PRESIDENT, UNIVERSAL LEAF TOBACCO CO., AND CHIEF AGRICULTURAL NEGOTIATOR, MULTILATERAL TRADE NEGOTIATIONS

Mr. STARKEY. Thank you, Mr. Chairman.

I would like to commend you and the members of your subcommittee for undertaking this effort. I think it is very timely and sorely needed. In my brief memory, I think it is the first time anyone has attempted to draw on past negotiating experience and to try and learn from the successes and mistakes of the past. I think it is an excellent approach.

I certainly agree with most of what has been said by my distinguished colleagues. I also have a couple of additional observations. The first is on the point that has already been made that the United States wrote the GATT rules in agriculture. I think that is absolutely right. We wrote them for a time when we had an agricultural policy that was almost identical to what the common agricultural policy is today. Of course, what has occurred is over 30 years our policy has evolved from a very protectionist policy to one which is market oriented. But the problem is no one else has had the same evolution. So as a result you have conflicts in the international trading system between our market-oriented policies and other more protectionistic policies.

The second point I would like to make is on the GATT itself as an instrument. We have a tendency in this country to think of the GATT as a legal institution. We think we can take our cases to the GATT and someone is going to sit there as judge and jury and decide the issue.

Well, that is not at all what the GATT is about. It is really a political body, as Bill Pearce indicated, and that reflects the wisdom of the drafters who recognized that trade policies are really an outgrowth of domestic policies in both industry and agriculture and that these domestic policies will only change when the underlying political bases for those policies change.

We are not going to get significant changes in trade policies in agriculture until there are significant changes in domestic agricultural policies. And, that doesn't only mean the European Community, Japan, and others also need to make some rather significant changes.

I would, however, argue in response to a point made by Gale Johnson, that while I recognize the theoretical arguments for unilateral elimination of trade restrictions, I would not be in favor of the United States unilaterally giving away anything. I think that, having dealt in two major negotiations with the European Community, it would be something like feeding a shark. They would gobble up what we gave and pretty much retain their current system. I strongly feel that we need to give up these protectionist measures in the context of negotiation where something can be obtained from other countries.

Now, as loose as these GATT rules are, we have won some important decisions. In fact, I would say, as I mentally review the cases we have taken to GATT, we have probably won the cases we should have won and lost the cases we should have lost. The problem is that there are some that feel we shouldn't lose any cases in the GATT, and, unfortunately, that is an ideal situation but not one that is realistic.

However, the problem between winning cases in the GATT and obtaining changes in policies as a result of those wins is a very different issue. We won the pasta case; the Australians won a case against the European Community subsidy on sugar.

However, the EC's policies have not changed, very simply because the European Community is not going to make a major change in its domestic policy as a result of a finding of the GATT. The political basis for that policy in Europe has to change before they can make the change.

The only mechanism that can force compliance—and I think that is a pretty useless objective—is retaliation. I think the Uniited States has been very reluctant to use retaliation with good reason. We enjoy a positive balance of trade with most of our trading partners in agriculture, and we have very little leverage to apply by use of retaliation.

It has been pointed out that section 22 has been a problem, and I would say, perhaps even more strongly, it has probably been the greatest impediment to meaningful agricultural negotiations over the last 20 years. Other countries simply will not bring their trade and trade policies into compliance with the GATT if the United States is free to derogate with impunity whenever domestic policy considerations dictate. That is really the current situation in agriculture.

U.S. willingness to eliminate the section 22 waiver in the context of negotiations as well as other trade restrictions, such as our voluntary meat restrictions, would be crucial to the success of the next round of trade negotiations.

What can we do to bring agriculture into the trading system? As far as the institutional question, I think the European Community is the key. The Japanese are actors certainly, but clearly the European Community is going to be the key to a meaningful change in GATT rules, particularly on export subsidies.

The Europeans are now facing serious internal pressures for the reform of their own domestic policy, similar to the financial pressures we face with respect to our own agricultural policies in this country. This may lead to more market orientation in their policy and less international friction. And, it could provide the opportunity for making some changes in trade policies.

But I, for one, question whether the timing is quite right for another major trade negotiation in agriculture. I think we have a lot to do to get our ducks in order before we can go into major negotiations. I think the Europeans also have a lot to do. We are going to rewrite our domestic agriculture policies next year. I wonder how we can effectively negotiate agriculture until we have decided for ourselves what the course of our agricultural policy will be.

Second, the European Community, as I just indicated, is in the midst of a serious reconsideration of its own agricultural policies and may not be ready at this time to make major changes in a public context.

In addition to that, the entire European Community leadership is about to turn over this year. All of the commissioners, will either be reappointed or changed. This is also the case with respect to the top civil service leadership in agriculture in the EC. So they are going to have a vacuum perhaps for a year or two while they bring new people on board and get them up to speed on these important issues.

In addition to that, the EC is involved in negotiations for the entry of Spain and Portugal into the Community and may not again have the resources or time to get involved in major negotiations.

I suggest for a couple of reasons that we need to handle our negotiations with the Community behind the scenes on a one-on-one basis rather than in a major public forum. One is in a public forum you are forced to take public positions. This could create a situation in which the opponents of any reform of the common agricultural policy could use external pressure to deflect internal reform efforts.

The French were past masters at this in the Tokyo round. The U.S. position was portrayed as a public attack on the common agricultural policy. Since the common agricultural policy was threatened, the unity of Europe was threatened. Therefore, it was necessary to unite to protect the common agricultural policy. That is pretty much why we had trouble making major gains.

We really have to work in a much more cooperative, quiet, consultative framework and not in a public confrontational mode, which I think we have seen used until very recently.

I think we have to also recognize, as we try to make these changes, that whatever we achieve is going to be long term. In this country we tend to take a rather short-term view of negotiations. We like to accomplish our objectives this year or certainly within 4 years. But with something like export subsidies it may take 20 years to achieve the objective that I think we should be aiming at of complete elimination. So we need to set some interim benchmarks as we work toward our ultimate objective, which is the elimination of export subsidies.

Once we reach some consensus with the European Community, we should slowly expand the discussions and should initially include only countries like Japan, Canada, Australia, and New Zealand, who share similar considerations and problems in agriculture.

And possibly most important, we need to develop clear and consistent agricultural policies in this country. Until we do that it is hard to know how we can realistically achieve our trade policy objectives.

Finally, I would just add that the problem is much broader than agriculture right now. There are so many exceptions to the GATT, not only in agriculture but in industry, that GATT rules are in a real danger of losing all meaning. I think we have to decide as a matter of national policy whether or not we want to make GATT the major forum for international trade. And, if we do, we are going to have to provide the leadership and convince our trading partners to come along.

Thank you.

Senator ROTH. Thank you, Jim. I couldn't agree with you more as to the importance of beginning to take a long-term look as to where we want to be.

One of my great criticisms of this Congress and this country generally is we are too short-term motivated. We try to resolve the immediate problem without looking where we are going. That is one of the purposes of these hearings.

Listening to you raises one question in my mind, whether we can have the best of both worlds. I understand—and I think you are right—in the short term we are not going to negotiate this tomorrow, but I do wonder whether it would be advisable to try to get Congress to authorize such negotiations sometime in the future, I suspect, not only for agriculture but many other areas for the reasons you mentioned.

Services I think is something we have to deal with. But to do so a lot of ground work has to be done.

Would it be helpful to lay the groundwork now for a future round of negotiations 2 or 3 or 4 years off, with the expectation that we can use the intermediate time for the one-on-one negotiations?

It also seems to me that as we reform our agricultural policies—you mentioned we are going to be dealing, hopefully, with that problem in 1985—somehow we factor into it, into those discussions not just the domestic political problems, which are very serious and critical, but the international.

I have personally been of the school—and perhaps I am wrong—that we ought to proceed with some kind of a resolution that we want to move forward to trade negotiations just to get people to—Mr. Johnson, I think you have written about the need, about the need to get international factors into the overall picture.

I think we are fortunate in having you next, Glenn, representing one of the great farm organizations in this country, unquestionably playing a very key role in whatever we do next year.

STATEMENT OF GLENN TUSSEY, ASSISTANT DIRECTOR FOR NATIONAL AFFAIRS, AMERICAN FARM BUREAU FEDERATION

Mr. TUSSEY. Thank you very much, Mr. Chairman.

I don't think the mikes are working, so I'll just elevate my voice somewhat.

I think a great many excellent points have been made here already. I think maybe the one thing I could do would be to share some of the concerns that farmers have regarding the trade area, and I would concede some of the points that Dale Hathaway made that you can't just always look at subsidies in isolation without looking at the domestic program and that sort of thing.

But the one thing that really bothers a great many farmers and ranchers in the country is the fact that even though in certain items that they feel they are very efficient in, to see those markets take away by export subsidies. And this has been particularly true. We heard our trade negotiators argue with the people across the table from them about what is an equitable share of the market, and I think that all of us concede that within the GATT agriculture subsidies are permitted as long as they don't get more than an equitable share of the market. So we have been arguing now for quite a while with the French and with others, as to just what is the meaning of the word equitable—one word—and so we don't seem to win that argument. I guess the agreement is written in English and French, and it means something to the French, and the English version means something to the rest of us.

We have been particularly concerned with the subsidies for the European Community and the subsidies from Brazil and others. I think that most of the farmers in America could somewhat understand the wish and the desire of the Europeans after World War II to not go hungry any more, and so their common agriculture policy was being devoted toward self-sufficiency—and I know many Europeans that went hungry during World War II, and you can sort of understand why they want a certain degree of self-sufficiency. But they have gone quite a bit further than that now.

About 44 percent of the world broiler market now is taken by the Europeans, not because they are that much more efficient in the production of broilers——

Senator ROTH. You are hitting close to home now. [Laughter.]

Mr. TUSSEY. I thought this might hit close to home. That was a bit deliberate. But they're not that much more efficient than the Delmarva producers. They get into these markets—and I have lived through some of this in the Foreign Agricultural Service, and we and some of the market development cooperators spent quite a great deal of money in Europe to develop markets for broilers, and we saw that market slip away for whole broilers, and we thought we'd be ingenious and switch to broiler parts. We held on a while longer, and then they got us there, and we switched over to turkeys, and by the time Jim Starkey and his colleagues were negotiating the Geneva trade talks, the Tokyo round, we got down to about the only thing we were getting in there was seasoned turkey parts. We found a legal loophole, and you could sprinkle a little salt and a little pepper on a turkey leg, and you could get some of them into the European market.

Then we saw that market slip away, and so help me, then we said, we'll go and spend our money where it counts. No more money down the rathole. We'll go to the Mideast, and we'll develop markets in Saudi Arabia and such places. And the first thing we knew, we saw European poultry in those markets. We saw those markets slip away, and later the Brazilians came along and displaced some of the European poultry. But that's another story, but it's still a subsidy story, however.

So those things have taken place and caused us a great deal of concern. And we were recently in Europe—and this thing is going to go on for a long time. I was in Europe with a group of our State farm bureau presidents in early July of this year, and we met, among other groups, with the German Ministry of Agriculture. And they had some figures on what they call "self-sufficiency in agricultural products in Germany" and also in the European Community. I'll not use the German figures, even though they're more dramatic in connection with certain products, such as nonfat dry milk, where they're 273 percent self-sufficient, but the figures for the European Community as a whole—wheat, 123 percent self-sufficient. They have an excellent crop this year, and in spite of what they say, they're going to put more on the market than they have before. Sugar, 115 percent self-sufficient; wine, 122 percent self-sufficient; whole milk, 123 percent self-sufficient; butter, 151 percent self-sufficient; nonfat dry milk, 131; beef and veal, 104; pork, 101.

It is surprising to many people that the European Community is a rather large exporter of beef now, and it has affected not just the United States—the subsidies I have mentioned here are affecting other countries. I had a gentleman from Zimbabwe in my office recently, and he told me that he was having a problem, that his country was having a competitive problem with subsidized EEC beef on their own doorstep. And we have people coming from other countries that talk about their domestic economy, which is based primarily on sugar, and they have been hurt very badly by the subsidized sugar from the European Community.

So I could go on and on. Our wheat flour people—Mr. Pearce mentioned and made a very good point a moment ago about the settlement

mechanism of the GATT which is not working. And if you ask anyone connected with the wheat flour industry in this country, they would say 7 years is too long, and what they got after 7 years was not very much of anything.

So I think you have a view among—at least I run into it, and I speak to our farmers and ranchers, and I say, well, use the import relief law, don't vote for protectionist legislation but use the import relief laws. And they say, we don't have that long to wait or that much money to spend. And so I think we do need to do something about the settlement mechanism. I'm glad to see that GATT is giving some attention to subsidies now. They have had a couple of meetings, at least.

Jim made the comment about the MTN. We also support a new round of trade negotiations, and I don't know about the timing on it, but I'm not particularly interested in waiting until the Europeans are ready. They catch us a lot of times, when our administration changes, and they've got a year or two there, they've got a new set of people to deal with. And even though they're making some changes, maybe we ought to catch them before they get everything in place.

When I go to Europe, I see people still in Brussels that were there when Jim Starkey and Bill Pearce and Dale Hathaway were in Government. They have been there a long time, and sometimes they—I may be stretching that a bit, but they're been around for a long, long time, as you know, Jim. We do support GATT. I think we need to make the GATT function. We can't live without the trading rules, even though sometimes they're not functioning like we like to see them function or like they should function. But we are going to have to work at it. There's no quick resolution to it.

A European was in my office recently and he said, our ag policy is out of harmony with your ag policy, and that's why we keep arguing over the words "equitable share." And I agreed with him. And he said, well, what is the solution? I said, well, I think perhaps there are two or three things in this world that maybe there isn't a solution to. One might be Northern Ireland, another one Lebanon, and the other might be the agricultural subsidies issue.

But I hope it's not that bad. We will have to keep working on it. Those are my remarks, Mr. Chairman.

Senator ROTH. Thank you, Glenn.

About the timeliness of negotiations, it does seem to me that one thing in favor of moving ahead is that, increasingly, both in the EEC, as well as this country, and I suspect, to some extent, in Japan, the course of our domestic programs is becoming a very serious matter.

In the case of EEC—I'm not an expert—but we have some of the participants in the Community, such as England, who are very unhappy, so we do have, I would say, some allies that would be sympathetic to what we think should be done. I happen to be one, as you probably know, Glenn, who strongly opposes the domestic subsidies and think if we're going to do anything about the budget deficit, the farm programs are one of the logical areas, but by no means the only one.

I would just like to ask all our participants again, do you think it would be helpful for Congress to attempt to authorize in the very near future some kind of negotiation that would include agriculture? Now some people have suggested, I believe that maybe instead of having a broad basket of issues for negotiation, maybe we ought to concentrate

on one or another. I have some reservations about that, personally, because I want to move in so many different directions, but, Bill?

Mr. PEARCE. I recognize all the arguments that Jim Starkey has made against moving ahead before there's more evidence that we will succeed, but I don't agree with the conclusion he draws from them. I think that the process of getting support from the Congress for the negotiations has to move on a parallel track with efforts to bring our foreign trade partners to the table. I see these as mutually reinforcing efforts.

Movement here on trade and on farm legislation could change the way the Europeans see the challenge from the United States and their willingness to enter into negotiations. At the same time, if we can point to the fact we are moving toward negotiations which we hope solve the problems that beset us in agricultural trade, we give the Members of Congress a constructive alternative to restricting access to the U.S. market and other remedies that are less likely to lead to a result at the end of the day, that will be constructive.

So, although we can't see the light at the end of the tunnel right at the moment, I think it is very important that the process begin.

Senator ROTH. Thank you, Bill. Yes, Mr. Hathaway.

Mr. HATHAWAY. Unlike Gale Johnson, I would not give anything away just in order to prove our purity, because while it is, I think, perhaps useful, we need trading stock, and so it seems to me, as Bill Pearce has suggested, that the process of dealing with getting sufficient authority to seriously negotiate some of those issues, will be a reasonably long process that has to be meshed with our own domestic farm program considerations and that it should start, because I do not think that's an easy or automatic process. And unless we have some negotiating authority beyond those that we had in the last round when Starkey and I didn't have anything more to trade, basically, I think we will be very frustrated by the process. By the time we got through that process, which I think would be a lengthy one, then there's a time to decide whether the Community is in a position to negotiate. But I don't think we should hold back because of someone else's inability to get their business together.

Senator ROTH. Gale Johnson.

Mr. JOHNSON. With respect to section 22 and, to a degree, section 32 and the need for them to be cleaned up to some degree before we enter negotiations, I don't count that as giving something away but as trying to set an atmosphere for negotiations because basically the U.S. Government—as I think we all here know—enters negotiations with very different ground rules than do the Governments of Japan and Europe, as parliamentary governments or systems.

The negotiators for other countries can make a commitment with respect to something like section 22. Our negotiators, without very specific legislative authority, cannot do so. In fact, as I understand, we ran into trouble recently on exactly this issue over commitments. I was told by people at the GATT, that we would accelerate the reductions on the Tokyo round. Well, it didn't happen because the negotiators could not fulfill that commitment. So what I really do argue is it would be to our own domestic interest if we abandoned section 22 and tried to live within article XI of the GATT, which I think we could do without too great a change in our farm programs for sugar, dairy,

and peanuts—and those are the main ones involved—and eliminate all the import quotas on the other two or three we have.

Senator ROTH. Could I ask you, what would it mean to those crops?

Mr. JOHNSON. Well, what it would mean in the case of sugar would be a return to essentially a policy in which we actually limited domestic production of sugar to some degree. We are now importing less sugar than we produce, though as recently as a decade ago we imported more than domestic production.

In the case of dairy, I assume it would be a matter of negotiating what it meant to live up to article XI since it has been so long since we have. But I would assume it would mean importing something like 3 or 4 percent of our domestic consumption and limiting, as we are trying to do, dairy production in this country.

In the case of peanuts it may be that our peanut program would fit article XI because we do restrict at least output for domestic food use, though we aren't doing that with respect to lower priced soybeans—I mean lower priced peanuts that are exported without direct subsidy.

But the changes in our domestic program would not be extreme, nor would the additional cost to the Treasury be extreme on this, and I think we at least should look at that and get rid of section 22 or at least make it possible for our negotiators to negotiate the elimination of section 22 and the export subsidy part of section 32.

Senator ROTH. I suppose you could do this. You could pass legislation that would take effect upon the completion of certain negotiations.

Mr. JOHNSON. Yes.

Senator ROTH. I don't know whether Congress would do it.

Mr. JOHNSON. But I do think our negotiators have to be in a position to take a final position with respect to section 22 and section 32, and they have never had the opportunity to do so in the past.

Senator ROTH. Glenn, would you care to comment?

Mr. TUSSEY. From a practical standpoint, I don't think the political climate is such that it would permit that at this time because I guess you are getting into sort of a catch 22 thing, of course, as to who moves first. But I think our people that are under section 22, look around the world and they say, well, I don't see any give there. I see more subsidies, and I see this, that, and the other, and why should we give first, and that sort of thing.

So I really don't think the political climate is such that it would succeed. I think you have a better chance of talking people into laying everything out on the table in an MTN session than you do giving something away and then hoping somebody else will reciprocate.

Of course, as Gale said, he is not really giving it away; he is cleaning it up. But I guess a lot of people would say, well, when you clean that up you clean me out. [Laughter.]

Senator ROTH. Let me ask you this question. Do you see that we could build the kind of consensus somewhere down the road that we would be willing to give up where we have these limitations in return for similar action on the part of our trading partners?

You are dealing with different sectors of the agricultural community.

Mr. TUSSEY. That is one I need to handle very carefully. I remember a government official one time that didn't handle that very delicately, and he was transferred pretty quickly from the station that he held. So perhaps I had better generalize on it.

In talking with a lot of Europeans, I acknowledge we have some warts because when they come here they hit us pretty heavy. They mention our sugar quotas and they mention our dairy restrictions, mention the cotton, the peanut quotas, and I acknowledge those are warts that we have, but generally our policy has a more free trade thrust.

I guess Gale would say that is in the commodities that we are more efficient in. But we do have a lot of things that we are efficient in, as I mentioned earlier—poultry and some of the other things—and sometimes we argue with the Europeans that we are back in the sugar quota business because they put us back in it. When Earl Butz was Secretary of Agriculture we got rid of sugar quotas, and he was quite proud of that, and then along came the common agricultural policy and sugar prices fell to 7½ cents, and I think now they are down to 4 cents a pound as I heard the other day, and so I would argue and make a pretty good case, I think, the European agricultural policy helped put us back into the sugar quota business.

But now I think I should stop by just saying there are a lot of things we could lay on the table and argue for support for laying it on the table, but I don't think we are going to concede first and then say now we are ready to bargain, you know.

Senator ROTH. Jim wanted to say something.

Mr. STARKEY. A couple of points, Mr. Chairman.

First, as I said earlier, and I would like to repeat, I would very much like to see the United States in full compliance with the GATT agriculture provision. I think we need to do that through the process of negotiation.

If we proceed as Gale Johnson suggests, we would have nothing to negotiate when we get the negotiations started, and I don't believe any of our trading partners are going to provide benefits gratis in the context of negotiation.

Second, I think perhaps the difference between my point on timing and Bill Pearce's is one of semantics. I think that if you are going to have a major trade negotiation 4 years from now you have to start today building a consensus not only in the Congress but in the public at large, and I think it is well worth beginning that process right now. I hope that will be an outgrowth of these discussions.

I would hope when we begin building a consensus in the Congress we can avoid the situation that we have ended up with in every previous negotiation, of getting locked into a very rigid negotiating position with a long list of the things we can't negotiate and a firm timeframe listed for finishing the negotiations.

A deadline puts all of the negotiating pressure on the United States which reduces our leverage. If we have excepted from negotiation everything that is at all sensitive in the United States, and we are asking other countries to make concessions in areas which are extremely sensitive to those countries, there is just no deal possible.

I would hope, since we have set the precedent in the Tokyo round of providing a mechanism where the Congress, through the relevant committees, and the negotiators work hand in hand on a continuous basis, where we set up this system of advisory committees where you have people that represent all sectors of the economy working with the negotiators on a day-to-day basis, that we could come out with a much broader mandate of principles and objectives and leave a maxi-

mum flexibility to be worked out between the negotiators, the Congress and the advisers as the negotiation proceeds.

We are the only country that announces our detailed negotiating mandate in advance. Other countries are changing and adopting mandates right up to the end of the negotiation, while 4 years later we are stuck with what we went in with.

Let's see if we can build some flexibility in future negotiations.

Senator ROTH. As the author of the legislation, which established the advisory committees, I am happy to get your support. I think that is a step forward. I think the more you can get Congress involved, that helps minimize the problem you refer to.

Frankly, I felt that that was one of the great strengths of Bob Strauss—his involvement on both sides of the aisle. I never yet failed to be amazed at how quickly we got the legislation through the Senate, which many of us thought was going to be a hard battle.

So it can be done, but it does depend on close consultation.

Mr. PEARCE. In principle I agree with what Gale Johnson is driving at, and my reason is that there are going to be changes in American farm policies and in European farm policies for reasons that have very little to do with the negotiation of an agreement.

I think it is fairly clear that the effort to deal with income problems in agriculture through manipulation of prices has about run its course. It distributes benefits in a way that is not at all related to need, and it has effects on production and consumption that work against the interests of countries that use price support systems.

Europe is in real difficulty with its common agricultural policy. Europe has more people out of work today than it has farmers, and yet it is spending 70 to 80 percent of the Community budget on agricultural support programs.

We have seen a 30 million ton swing in the Community in the last 10 years from net grain imports to net exports. The estimates are that the Community will increase their grain production by another 18 million tons before the end of the decade, and 13 million of those will have to be forced into a world market that is increasingly characterized by surpluses, and surpluses that are produced a lot cheaper than the Europeans are able to produce grain.

So there are factors at work in Europe that will push them in the direction of a more rational way to deal with this.

That is true here in the United States as well. Nobody is satisfied with the present farm legislation. It doesn't fit the opportunities that appear to exist for farmers. The 1985 farm legislation has attracted more attention than any in the past. I think that is a reflection of a growing consensus that we need to find new ways to deal with income problems of farmers, ways that don't interfere with the opportunity we have to continue to expand the farm market abroad.

So, in a sense, we are shooting at a moving target. There are other forces at work here unrelated to agricultural trade negotiations that will alter prospects for finding some sort of rational basis for agreement. And that supports the argument that we ought to begin the process of making these changes, not as a condition of a negotiation but in the realization that it is in our interest whether or not there is a new negotiation, because new approaches to farm income problems fit the world we will see in the future better than present programs.

Senator Roth. Let me, if I might just try to sum up this aspect and then I'd like to turn more to the substance of any further negotiations.

Are we in general agreement that we ought to start the process now toward future multilateral negotiations, that it would be appropriate for Congress to lay the groundwork through some new authorization for such negotiations, that the time frame should be not immediate but over—I don't know what—2 to 4 years?

Would anyone care to comment? Or 3 or 4 years, I mean, before we start? I am talking about looking forward to actual negotiations. I think it's going to take a fairly lengthy period to lay the groundwork not only in this area but other areas as well. Would there be any disagreement? Mr. Hathaway, would you——

Mr. Hathaway. No.

Senator Roth. Good. I'm anxious that Congress go on record, partly because I think much of what you have written has been very persuasive. We've got to get this international factor into the situation somehow, I believe, as we move to correct our own domestic policies. I'm not clear in my own mind, to be candid with you, how we separate domestic programs from the international, where you draw that line. It takes a wiser man than I.

I'd like to, if we might—time is moving fast—to deal a little bit with the question of what we should do to liberalize—I don't know whether I should use the word "liberalize" these days or not—trade in agriculture, and then, before we finish, I'd also like to have a look at the question of the LDC's and where they fit into the picture.

We have all agreed we ought to have negotiations. What should we seek to accomplish there? Do you care to start?

Mr. Johnson. Well, the objective should be to get agreement that we gradually lower the levels of protection to agriculture, to make them more commensurate with the levels of tariff protection that we have for industrial products. In other words, that we move from levels of protection in many cases of 40 and 50 percent or more to something of the order of 10 or 20 percent, and also that we try to get agreement that these levels should not vary too much over time.

One of the things that's become fairly clear in recent years is, when individual countries fix their domestic prices and then don't change them in response to changing conditions, they make prices for everybody else more unstable, and that should be given consideration. But if the levels of protection are negotiated down to more nearly common levels—lower levels—say 10 to 20 percent for the major agricultural products, I think this is something we could live with. It is interesting that the first proposal made by the Common Market, though it had many other inappropriate features of it, was to negotiate over the level of protection in the Kennedy round. But obviously, they wanted a level of protection to be where they had it, but I think that this concept might be something we would want to introduce again.

Senator Roth. Any major change like that, I gather, would have to be phased in over a period of time.

Mr. Johnson. Oh, surely. Well, the same thing is true of changes in our domestic program that we need to make. They're not the kinds of changes we can make overnight. We're talking about a 4- or 5-year period of transition where there's a goal which we attempt to achieve. And I agree with Bill Pearce on this point. I think that this may be

an appropriate time to negotiate with the Common Market. Of course, the problems in the Community with respect to agricultural policy are now quite severe. Not threatening quite yet, but with the addition of Spain and Portugal, when that happens, this is going to be a very, very expensive policy for the Community.

Senator ROTH. It already is.

Mr. JOHNSON. No. I mean in the sense where they get olive oil, more wine and some products of this kind, and then they're going to have to face the cost issue and the degree of protection. It may be easier to face up to them in connection with more multilateral discussions at that stage.

Senator ROTH. Mr. Hathaway.

Mr. HATHAWAY. One of the things that bothers me in this discussion and most others on the subject, is the assumption that somehow the export subsidy issue is the only issue involved and that, therefore, if that went away somehow, everybody else would cease producing these products and the market would be ours. I think there's a certain illusion about this. If a number of other countries move to exactly the same kind of program that we have on our competitive crops—target price payments on unlimited quantities that are substantially above world market prices, at least at the present time—their production won't go away. It will be on the world market and, therefore, I don't think dealing with export subsidies alone solves the problem.

I think that there has to be serious discussion of the level, type, domestic program support, import protection, and export programs, because they're all related. They cannot be separated, and that the illusion that somehow controlling the subsidy element changes the world supply, demand, and balance for some of these products is just not correct, and I think that's a very sticky proposition to negotiate, to put it mildly. But the emphasis on subsidies alone strikes me as perhaps being somewhat misleading and not dealing with the problem over the long run quite in the way it has to be dealt with.

Senator ROTH. I was trying to allude to that point myself. To me, it's difficult to distinguish between what are domestic policy and those international, because they're so closely interrelated. I think it's a highly artificial distinction. Would anybody disagree?

Mr. TUSSEY. Well, I don't disagree. You have to look at the entire picture, and I think these first sessions, again, on the subsidy issue are looking beyond just the export subsidies and, as I understand it, and a lot of times, the countries that are subsidizing their exports will say, well, you spend so many billions of dollars on your farm programs and we spend so many billions on ours, and somehow it matches up pretty well, so what's all the fussing about, what's all the argument about? I think there is one big difference in the agricultural subsidies that our governments spend and, say, those that the European Community spends. And that distinction might be this—that a large part of what we spend on agricultural programs goes toward curtailing production rather than expanding production. The PIK Program was a huge expenditure, but it was to take production adjustments. I see some distinction between spending money to bring supplies in line with demand and spending money on agriculture, which results in an expansion of production.

The thing I hear from a lot of our farmers is that we're getting kind of tired of taking virtually all the production adjustments in the world. With the PIK Program, we spent huge sums of money. We took production adjustments, while the Canadians expanded their production by 7 percent; the Argentines expanded their production, and so did the Europeans.

So there is a difference, and I don't mind putting all the subsidies in agriculture out on the table, but let's look at how the subsidies are spent, what their purpose is, and what is being accomplished by them.

Senator ROTH. Yes.

Mr. STARKEY. Mr. Chairman, I used to have nightmares when I was a negotiator, that the European Community overnight would adopt our target price and deficiency payments, and then they'd end up with the same share of the market, and we'd have no argument. The only difference, of course, would be, they would have the line item in the budget for the cost of their agricultural programs, and that would probably force a more rapid change than has been the case. But this really implies a need for kind of a different approach to the negotiation of agriculture. The only reason export subsidies and import protection are needed is because there are wide disparties in price levels between various countries. The European Community keeps its grain prices very high; our prices are more world market, and the only way you're going to really achieve the elimination of the subsidy problem and the elimination of the protection problem is if you can somehow or other get those prices harmonized over a period of time.

European Community prices may have to come down and our prices may have to come up to whatever the world market equilibrium price is. Somehow or other, we have to have a forum that permits policy officials to get together and talk about the evolution of their own domestic policies and its impact on trade.

We tried this at the end of the Tokyo round. It was perhaps too idealistic and too optimistic, but we created the multilateral agricultural forum known as the Cathedral. The theory behind that was Secretaries of Agriculture from around the world would get together and as they were dealing with their own domestic agricultural problems, through personal interaction with each other, would be able to take each other's problems into account and, hopefully, moderate some of the things they were doing. It was very idealistic, but really, until we get to harmonization of prices, until we get to some recognition that one country can't take all of the burden of adjustments in the world market, we're not going to solve these problems.

Senator ROTH. Can I ask a question with respect to that forum? Are they meeting? Are they doing anything, or has that sort of died?

Mr. STARKEY. I think it has sort of died, but I am not sure—I think they changed the name, but it was a good idea. In fact it was my idea. [Laughter.]

Senator ROTH. Bill.

Mr. PEARCE. I'd like to make a further point before we finish, and that has to do with a value-added product in agriculture. The emergence of this as a problem in the last few years has really altered the political dynamic for trade on both sides. It exists because of the ambiguity in the definition of the term "primary product." The rules are different for primary and nonprimary products. And by taking the position that products like wheat flour, for example, and pasta are

primary products, the European Community has used rather considerable license in expanding its share of these markets to really dramatic figures. And the businesses involved are industrial businesses in a real sense. They are handicapped in trying to assert their rights to effective remedies under the subsidies code because of this. This has had the effect of undermining the commitment that people in agriculture have to the trading system. Because these businesses are part agriculture and part industry, we have seen the evolution of coalitions involving agricultural interests who bring a much more mixed approach to the usefulness of the trade rules than we have gotten from the farm community itself.

Moreover, these "value added" businesses have a legitimate complaint and it ought to be high priority in our efforts to deal with what we have generally seen as agricultural trade problems.

Senator ROTH. Any further comment? [No response.]

Let me go back, if I might just a minute, because one of my concerns is, how do we begin developing a consensus. I understand your initiative, I'm told, died. There was just a belated meeting with the EEC, but it seems to me there's a lot of merit to what you're talking about, if you're talking now about going ahead with a new authorization. I don't think we just want to sit back internally in each country.

Is there any way we can begin to get some of our opinion leaders in the agricultural area together to begin looking at these problems without the formality of actual negotiations? I'm sorry to hear, but I think that often happens from one administration to another, that for some reason they don't continue.

But is there any way we can begin, because we really are talking about domestic policy of great political importance, and it's true in every country. I think we also have to face the fact that no country wants to be entirely dependent on imports for food. I think that it's just inherent in our way of thinking.

So is there anything that—assuming we go ahead with the authorization, how can we best use this time before that to begin to develop a consensus forming between the countries involved?

Mr. PEARCE. There are in existence continuing discussions at the nongovernmental level between both the United States and Japan on the one hand and the United States and Europe on the other. There has been a United States-European Countries Agricultural Conference in existence for 10 years. Business people from the United States, farm organizations and others meet annually with senior farm organization leaders in Europe.

Jim Starkey and I both have had an opportunity to take part in that process. However, the discussion doesn't move very far from the fixed positions. In fact, there appear to be few free spirits on either side.

The discussions with Japan take place in several different forums. One is the United States-Japan Advisory Council, which was an outgrowth of the efforts of the "wise men." There have been limited discussions of agricultural issues between senior American and Japanese business people, with the business institutions on both sides taking part. But again, discussions don't move very far beyond positions expressed by governments on the issue.

Jim may want to disagree with that or add something to it, but my sense is that these discussions are useful because they give you a better

sense of what the arguments are. But they don't seem to have much capacity to change policies.

Mr. STARKEY. I agree with what Bill says, Mr. Chairman. I'm not sure that is really the way to proceed, because representatives of agricultural groups have constituencies to represent. Their primary concern is maximization of farm income on each side, and you're not going to get the kind of discussion that would lead to the changes that would be necessary. I think this probably has to be done at the governmental level. It might be timely, since we're in the process of revising our agricultural policy, the Community is in the process of reconsidering theirs, and the Japanese are under pressure to get policy leaders from the key countries together in an informal setting to begin a process of interaction.

Senator ROTH. Just thinking out loud, I wonder whether it would be desirable for the heads of government periodically to at least put it on the agenda to try to set up some kind of an ad hoc group to begin looking at the problem.

Mr. STARKEY. It certainly would be one way of doing it.

Senator ROTH. As you say, it obviously affects the domestic policy at the highest level, and it seems to me that is one of the purposes of these meetings—to consider economic problems and also policies—and that perhaps that might be a possibility.

Let me ask one further question. The hour is drawing late. But we have not discussed the LDC's at all in this. I wonder how they fit in with what you think should be done there.

Mr. JOHNSON. Well, there are two aspects of the issue with respect to LDC's. First, they are strictly agricultural, and here the policies of the United States and the European Community, with respect to sugar especially, are, I think, very serious from the standpoint of the LDC's.

Sugar production is still basically a tropical crop, and growing it in temperate zones has a very high cost. Right now our price is five times the world market price, which is probably not sustainable in the world market very long. It just provides one more opportunity for developing countries to have some exports that have gone by the way. And this is important to us, after all.

The second thing is that it is not only trade in agriculture. Our policies with respect to trade, not only with respect to agriculture but what the economists call labor intensive manufactured products, are of great importance.

I think that needs to be addressed because textiles have recently been in the news, but we really do need in the long run to provide for the LDC's an opportunity to take advantage where they have a competitive advantage. For instance, a great number of manufactured products require a great deal of labor and relatively low skill.

So that if we want to export to the LDC's, we have got to import from them, a lesson we find very difficult to learn, but if they are to import they have got to export if we are going to continue to loan them more money. Right now we are unwilling to loan them more money. If you want a market, then we have got to create one for them here and in Europe and in Japan.

Senator ROTH. Any further comments?

Mr. STARKEY. I would just agree with what he says. I think the developing countries are certainly our largest potential market in agriculture and they have got to be part of the process. But if you are going

to have reasonable negotiation, you can't bring them in too early because you can imagine that a meeting is difficult enough with 12 people. If you have 83 in there it becomes practically impossible.

In addition to the LDC's, another problem that hasn't been mentioned is the centrally planned economies. They are also outside the trading system now, and I think any major negotiating effort in the future needs to come up with some creative and innovative ways to deal with state trading or trading by centrally planned economies.

Senator ROTH. I think that is one of the most difficult problems that we really haven't dealt with, and I would agree with you it has to be dealt with.

Do you think that as we proceed toward multilateral negotiations that we should also try to deal with the problems on a bilateral basis as well? Should we limit ourselves to the multilateral, or should we use as many different approaches as possible?

Mr. PEARCE. That is a hard question to answer. Multilateral negotiations really are a grouping of bilateral agreements unfolded in a multilateral context. Trade problems arise between individual countries, and we try to deal with them in bilateral discussions. But because benefits of resulting agreements are made available to all, the process contributes to a multilateral system.

I think that the process of preparing for multilateral negotiations can be greatly helped by bilateral discussions of particular pressure points that are liable to give rise to problems; for example, the agricultural issues that exist between the United States and the European Community.

Progress can also be served by efforts like those going on right now in the GATT Committee on Trade in Agricultural Products that grew out of the GATT ministerial 2 years ago. Participants are trying to identify the elements of the problem and to draw some conclusions about how they might be dealt with. This process brings you to the table in a negotiation with a lot better idea of what the core problems are. So I would encourage both of those kinds of efforts.

Senator ROTH. Gentlemen, is there any further comment on any area?

Mr. TUSSEY. I would just like to mention this. Professor Johnson is a very popular speaker among our farm bureau groups. Though I sort of challenged him on one point he made, he always gets a good reception on that point even with farm bureau groups. They always applaud him. Whether it is going to be affecting our policy or not, I don't know. [Laughter.]

But it says something. He always gets a lot of applause.

Senator ROTH. Some people say the same thing about party platforms. [Laughter.]

Well, gentlemen, I want to express my personal appreciation for your taking the time. I think this meeting has been valuable.

I would hope that you would let us have the advantage of your consultation and advice. As only one Member of the Senate, I do hope to push forward for new negotiations and would like to work with you.

Thank you very much. The subcommittee stands adjourned.

[Whereupon, at 11:45 a.m., the subcommittee adjourned, subject to the call of the Chair.]

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